

Decision 87 11 062 NOV 25 1987

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Park Water Company-Vandenberg)
Disposal Division, for a general)
rate increase for sewer service in)
Vandenberg Village, Santa Barbara)
County.)

Application 87-05-001
(Filed May 1, 1987)

Martin E. Whelan, Jr., Attorney at Law, for
Park Water Company-Vandenberg Disposal
Division, applicant.
Jock Sutherland, for Vandenberg Village
Community Services District, protestant.
Alberto Guerrero, Attorney at Law, and
Willem Van Lier, for Public Staff Division.

OPINION

Statement of Facts

A California corporation, Park Water Company (Park) today owns and operates public utility systems under the jurisdiction of this Commission in Los Angeles, Ventura, and Santa Barbara Counties in California, and in the State of Montana. In Santa Barbara County, Park's Vandenberg Water and Sewer divisions provide service in and around Vandenberg village, a residential subdivision approximately three miles north of the City of Lompoc.

In 1959, Madison Land Company (Madison), part owner of Vandenberg Village Development Company and of the acreage in Tract 10034 in Santa Barbara County, was interested in proceeding with development of that area. But the County required that water and sewer systems be provided before development proceeded. Without residential population to vote to create a district, Madison had to proceed privately. Since a water system necessarily would be subject to Public Utilities Commission jurisdiction but sewer systems were not, it was concluded that it would be best to have

two separate entities, owned and operated by other than Madison. Accordingly, Madison made an arrangement with three individuals experienced in such ventures whereby Madison would pay the approximate \$230,000 cost of the initial sewage disposal plant, the off-site transmission lines, and the within Tract 10034 collection lines, and donate the resulting embryonic privately owned disposal system to these three individuals in consideration for the three undertaking public utility obligations and responsibilities, as well as the financing, installation, and subsequent operation of a regulated public utility water system to serve Units 1 and 2 of Tract 10034, the balance of that tract, and certain projected shopping and commercial center areas adjacent to the northern boundaries of the initial two units of Tract 10034. While further development beyond this initial project was contemplated, it would be contingent upon future demand for housing, and other financing.

The arrangement came to fruition, and the three individuals put in both systems, incorporating each as a separate legal entity: Vandenberg Utilities Company for water service and Vandenberg Disposal Company for sewer service. They also obtained from this Commission a certificate of public convenience and necessity (Decision (D.) 60782 in 1960) with respect to the regulated water public utility. Both systems were installed and operations began.

Article XII, § 5 of the California Constitution authorizes the Legislature to confer additional authority and jurisdiction on the Public Utilities Commission, and by enacting Chapter 1109 of the Statutes of 1970, the Legislature brought sewer systems in California under Commission regulation, although this jurisdiction did not become operative until July 1, 1972 (see Chapter 1631 of the Statutes of 1971). By this time Henry H. Wheeler, Jr., the last of the three original Vandenberg utility entrepreneurs, owned or controlled both the water and sewer utilities at Vandenberg, as well as Park with its several water

utility entities elsewhere. And between 1960 when the initial utility systems at Vandenberg had been installed, and 1972, the disposal system had grown from 287 services (end of 1961) to 1,415 (end of 1972), far beyond original Tract 10034.

About the time Commission jurisdiction attached to the sewer system, the Central Coast Region of the California Regional Water Quality Control Board brought pressure on the disposal company at Vandenberg and the City of Lompoc to participate in a regional treatment plant which would be owned by Lompoc but to which the disposal company would have long-term capacity rights. There was general local agreement that Vandenberg Disposal Company would have to participate. However, the little disposal company lacked the financial resources and credit on its own to do so. Accordingly, with Commission approval (D-81891 dated September 14, 1973 in Application (A.) 54231) Wheeler merged the water and sewer utility companies at Vandenberg into his Park Water Company to be effective January 1, 1974, and also obtained the required Commission approval to obtain a \$1,300,000 loan on the strength of the combined assets to buy into the regional wastewater project, finance certain water utility improvements, and repay some earlier short-term borrowing. Thereafter, the disposal operation at Vandenberg was known as Park Water Company-Vandenberg Disposal Division.

Under the Regional Wastewater Treatment Plant agreement Lompoc bills Park for both wastewater treatment and effluent disposal. These charges are the largest expense of the Park Disposal Division and vary substantially. When Commission jurisdiction attached to the sewer operation in 1972, the disposal company filed Advice Letter 1-S establishing its initial regulated residential service tariff rate to be \$4.72 per month.

Commission records show that after public hearing, by D.85716 Park was authorized an increase which brought the monthly residential rate to \$5.25 effective May 25, 1976. In that

proceeding applicant Park and our staff were in essential agreement on rate base and the Commission adopted the same rate of return previously authorized Park to be applicable to the Vandenberg Disposal Division. This was the Division's last general rate increase.

Commission records further show that in 1977 a major offset increase was granted by D.87220 in A.56631, increasing the monthly residential sewer rate to \$13.24 (effective May 3, 1977) to offset the effects of abandoning Vandenberg Disposal's treatment and effluent disposal facilities and to provide a return on a substantially increased rate base resulting from connection to the regional treatment plant.¹ That decision authorized the Disposal Division the same 9.5% return on rate base that had been authorized Park's Vandenberg Water Division and other divisions of Park in the mid-1970's.

As stated, the major part of the Disposal Division's operating expenses are Lompoc's charges. These charges, by contract, are determined by Lompoc's City Council which passes resolutions to establish volume and weight sewage rates for the Disposal Division. This has resulted in large swings in charges to the utility. Following May 1977 there have been eight rate changes, all occasioned by the need to offset swings in the Lompoc charges or by tax changes. By Commission Resolution W-2225 dated August 16, 1977 (the outcome of Advice Letter 4-S filed by Park on July 15, 1977), Park was directed to establish a balancing account pursuant to Public Utilities (PU) § 792.5 so that the Commission

¹ Each of the rate changes described in this opinion applicable to residential customers was accompanied by a commensurate rate change applicable to the Commercial Service rates.

could take into account by appropriate adjustment any over or undercollections in the account in subsequent rate adjustments.²

In December of 1986, pursuant to provisions of General Order 96-A, Section V, Park filed a draft advice letter seeking additional revenues of \$212,729, an increase of 54.83% over its estimated revenues at present rates, and the same 12.09% return on rate base as was authorized Park in D.84-05-058. The proposed rates would increase the monthly residential rate from \$15.15 to \$23.46. As reasons for the increase Park cited the fact that there has been no general rate increase in over ten years; all rate changes in those ten years having been to reflect and pass through changes in the Lompoc charges. Park states that the last decision did not include revenues to cover allocated expenses of Park's headquarters in Downey; that income taxes are higher; Park's investment in the Lompoc Regional Treatment Plant is higher than anticipated due to construction changes and delays in completion; and that nearly 40% of the increase is necessary to eliminate a

² The residential customer rates authorized in these eight subsequent rate adjustments in advice letter proceedings were as follows:

Advice Letter	4-S	August	1977	\$14.31	Resolution W-2225
"	"	6-S	July	14.85	" W-2410
"	"	8-S	February	14.72	
"	"	9-S	August	14.37	
"	"	10-S	October	13.46	
"	"	12-S	December	17.77	Resolution W-3050
"	"	14-S	July	20.78	" W-3119
"	"	16-S	November	15.15	

The \$20.78 rate set by Advice Letter 14-S resulted in large overcollections for the period following which led Park to ask in Advice Letter 16-S for a substantial rate decrease to liquidate the overcollection. The \$15.15 rate adopted in November 1985 has depleted the overcollection rapidly and it is anticipated that all the overcollection will be liquidated by the date the current decision issues.

Treatment Cost Balancing Account refund implemented in November 1985 to clear the account.

On March 31, 1987 Park notified its 2,000 customers of its proposed increase. In April 21 customers, the Vandenberg Village Association (a homeowners organization), and the Vandenberg Village Community Services District mailed protests to the Commission requesting a public hearing. Accordingly, on May 1, 1987 the draft advice letter was converted to a formal application and set for hearing.

A duly noticed public hearing was held on September 8 and 9, 1987 in Lompoc before Administrative Law Judge (ALJ) John B. Weiss. On the latter day, after final oral arguments, the matter was submitted for decision. Approximately 100 members of the public attended the initial day and 10 the second day of hearing.

Public Statements at the Hearing

At the outset of the hearing eight members of the public made unsworn statements regarding Park's proposal, all essentially in opposition. Among the concerns expressed were that higher rates would mean some people would no longer be able to continue living in the community. One stated that, exclusive of periods when outside irrigation was required, it would now cost more to carry away sewage than to deliver potable water. A common thread was the expressed belief that since Park had been "given" the initial sewer system by Madison and most of the plant added since had been contributed, the present rate base must be grossly inflated, leaving Park to receive a return based on no real investment. Others did not understand why Park should receive a return on its investment higher than that offered by bank deposit interest or government bonds. Another compared Park's sewer rates with those charged by some municipally owned sewer systems. Main office allocations were questioned as well as the specific percentage allocations between the Vandenberg water and sewer operations vis-a-vis their respective revenues. Several others were concerned

whether Park was earning a return or taking some mark-up on pass-through collections for the Wastewater Capital Reserve Fund,³ and another questioned why Park was not showing interest income received from the fund. The director of physical services for the Lompoc Unified School District made a statement noting that California's school districts were receiving a 2.54% increase in funds this year, and contrasted the impact of the proposed almost 55% sewer increase to the 3 to 8% increases budgeted for other utility services by the District. Copies of the Staff's Results of Operations report which had been furnished to all parties to the proceeding on August 28, 1987 were made available to those general public members attending the hearing.

Public Evidence

At the hearing Park submitted its evidence through exhibits and the testimony of three witnesses: Roger W. Brett, its Vandenberg resident manager; Terry H. Witthoft, an engineer specializing in utility ratemaking employed by the Donald R. Howard Consulting Engineers, Inc., and Donald R. Howard of that same firm. Park's evidence shows that when the utility filed its draft advice letter, its calculations were based on a 1986 test year foundation. That data tended to indicate that Park's rate of return on rate

3 Included in monthly rates are user contributions of \$2 per month for residential customers and \$0.20 per month per hundred cubic feet for wastewater discharged by commercial customers. To regularize depreciation charges a sinking fund method of estimating annual depreciation was adopted by Lompoc for the regional treatment facilities, and a Wastewater Capital Reserve Fund established. The contribution amounts are collected by Park to be transmitted to the City of Lompoc for deposit in this fund as required by the state and federal grant regulations. The fund is considered to belong to the homeowners of the system for ultimate use in replacing the regional treatment plant facilities as these facilities reach the end of their useful life. Park earns no interest on that fund, and the monthly contributions have no effect on rate base.

base on then present rates would be approximately 1.58% compared to the 9.5% return which had last been authorized the sewer utility, albeit back in the 1976 and 1977 proceedings. Since then, based on consolidated water utility considerations as Park, the rate of return authorized most recently was the 12.09% adopted in 1986.⁴ Using the federal corporate income tax rate of 46%, Park had estimated that to attain that same 12.09% return it would have to have a sewer system revenue increase of 54.83%, or \$212,729.

But at the time Park's December 1986 draft advice letter was ordered to be converted to a general rate increase application because of the extent of the requested consideration, staff also asked Park to supply updated mid-1987 data for the Disposal Division. Park complied; revenue estimates were adjusted to reflect current customer growth; more current 1986-87 year Lompoc charges were substituted; payroll estimates were adjusted to reflect 1987 wages; insurance estimates revised to reflect more current costs and main office allocations adjusted to reflect 1987 expenditures. Income tax calculations were redone to reflect 1987 tax depreciation and investment tax credit. And offsetting these to some degree were certain factors such as elimination of recovery for the old sewer plant (a debit account fully amortized as of May 31, 1987), use of the 1988 federal corporate income tax rate of 34%, reduction of the rate base to reflect depreciation and Wastewater Capital Recovery Fund principal payments and a reduced return on rate base.

Concurrent with Park's submissions in this proceeding, Park was engaged in hearing on the Park's Central Basin and Uehling Water Company application (A.86-11-021 and A.86-11-022,

⁴ Prior Commission decisions have authorized rates of return for Vandenberg water and Vandenberg disposal equal to those authorized for Park.

respectively). From the testimony in those proceedings Park's rate expert concluded that a return on equity of approximately 12% was likely and included that in his recalculations. The ALJ's proposed decision mailed July 29, 1987 for those consolidated proceedings included a finding that a return of 11.51% on rate base would be appropriate for years 1988 and 1989. Since any rate increase for the Vandenberg Disposal Division would be effective late in 1987 or beginning 1988, and previous determinations of percent of return currently made for Park's Central Basin and Uehling Water Company divisions have been applied to Park's Vandenberg divisions including the disposal operation (the common practice of the Commission where integrated utilities operating through divisions are involved), Park concluded that the same 12.0% return on equity and 11.51% on rate base would be made applicable to this proceeding. As revised, Park's application then sought a marginally higher 54.85%, or \$216,449 increase over present rates.

Staff's Evidence

In its turn staff submitted its report and entered testimony pertaining to its analysis of Park's revised application. Staff's evidence was entered through Willem Van Lier, project manager, and utilities engineer Ishwar Garg. During its June 5, 1987 field investigation all lift stations, new construction, the utility warehouse, and the regional treatment plant were inspected. The staff witnesses testified of their analysis of Park's initial and revised Summaries of Earnings and supporting paper work, and that after reviewing the utility's operations and records they had made their own independent estimates as set forth in the staff report.

With certain exceptions discussed below, staff concluded that Park's estimates for test year 1987 were reasonable and accurately reflected the prevailing situation for the Disposal Division. Staff's estimate of Operating and Maintenance (O&M) Expenses was \$19,500 less than Park's. Apart from minor

differences in purchased power and uniform expense, the bulk of the difference was in the estimates for volume and weight rates assessed by the City of Lompoc for Vandenberg. Staff also concluded that Administrative and General (A&G) Expenses should be \$8,000 less than those estimated by Park; the differences being in insurance, office supplies, and outside services, as well as in the allocations for main office expense, and data processing. There were also resulting differences in taxes and depreciation expense. Staff's only differences from Park in determining average depreciated rate base were that staff adopted the slightly lower (\$2,900) allocation for main office rate base which had been agreed upon in the Park's Central Basin rate proceeding (A.86-11-022), and staff made use of Standard Practice U-16 to determine and apply a negative working cash allowance component of \$37,200 for Vandenberg Disposal's Rate Base (derived from the fact that the utility's revenue lag days are less than its expense lag days). Thus, the Rate Base used by staff was \$40,100 less than that used by Park.

Protestant Vandenberg Village
Community Services District Evidence

The District presented its evidence through testimony and exhibits entered by Jock Sutherland, its president. Sutherland, a California and Ohio registered civil engineer with degrees in both marine and civil engineering, based the District's contentions on its April 17, 1987 letter of protest to the Commission. In essence that letter purports to show that the \$20.78 sewer rate in effect from mid-1983 for residential customers was much too high and consequently produced a substantial overcollection in the balancing account, which subsequently in November 1985 forced a reduction in the sewer rate to \$15.15 to liquidate that overcollection. That liquidation has now been accomplished.

District's witness contends that since Lompoc's present rates to Vandenberg are less than they were in 1983, Park should wait until Lompoc increases that rate and then handle such increase

by advice letter proceedings; that for the present Park should only be entitled to any uncompensated increases in its costs since the last rate proceeding in 1977, Commission surcharges, tax changes, and rate of return adjustments. And of these latter, District disputes only the Cost of Living, certain administrative costs, and rate of return. However, the District also contends that since Madison "donated" the original disposal plant to Park the rate base is exaggerated and customers have been overcharged for all years since.

The witness contended that staff's report does not examine the trend in Park's costs over the years. He testified that Park's Annual Reports indicate a 77% increase in revenue over the period 1977-1986 compared to a consumer price index increase of approximately the same 77%. Adjusting for a growth factor in the system, District testified there is at most a 13% uncompensated cost of living increment indicated. The witness contended that Park's A&G Expense estimates and main office allocations are excessive; that there are only minimal administrative costs associated with the sewer division, and that half of Park's main office allocation to Vandenberg should be assigned to other Park operations, and half of the remainder should be assigned to the Vandenberg Water Division.

In support of its contentions District introduced exhibits containing extracts from Lompoc City computer runs on wastewater treatment charges pertaining to actual fiscal year 1983-84 to 1985-86, and estimated fiscal year 1986-87, and a table extracted from A.60498 (a 1981 Park proceeding) for years 1978, 1979, 1980, and 1981, indicating the prime interest rates, the discount rate, and Class A Bond monthly averages of that period. District also entered exhibits taken from the World Almanac showing 1977 to 1986 Bureau of Labor Statistics Average Consumer Price Indexes for the United States.

Summary of Earnings

The respective Summary of Earnings for test year 1987 as estimated by Park and staff is contrasted in Table A which follows:

TABLE A
Park Water Company-Vandenberg Disposal Division
1987 Summary of Earnings
(Dollars in Thousands)

	<u>At Present Rates</u>		<u>At</u>
	<u>Utility</u>	<u>Staff</u>	<u>Adopted Rates</u>
Total Revenues	\$394.6	\$394.6	576.2
WCRF Payments*	<u>(53.2)</u>	<u>(53.2)</u>	<u>(53.2)</u>
Operating Revenues	341.5	341.5	523.0
Operating & Maint. Exp.			
Payroll	30.3	30.3	30.3
Purchased Power	4.0	3.8	3.8
Clearing	1.2	1.2	1.2
Uniforms	0.3	0.2	0.2
Transportation	3.1	3.1	3.1
Records & Collection	5.2	5.2	5.2
Postage	2.7	2.7	2.7
Uncollectibles	0.4	0.4	0.6
Lompoc Disposal Charges	<u>255.9</u>	<u>236.6</u>	<u>236.6</u>
Subtotal O&M	303.0	283.5	283.7
Administrative & General			
Payroll	32.7	32.7	32.7
Payroll Burden	9.8	9.8	9.8
Insurance	24.9	22.8	22.8
Reg. Comm. Exp.	6.5	6.5	6.5
Outside Services	1.6	1.5	1.5
Safety	1.3	1.3	1.3
Office Supplies	11.0	10.8	10.8
Miscellaneous	2.0	2.0	2.0
Main Office Allocations			
A&G Exp.	35.7	33.9	33.9
Data Processing	<u>7.8</u>	<u>4.0</u>	<u>4.0</u>
Subtotal A&G	133.3	125.3	125.3
Payroll Taxes	6.7	6.5	6.5
Ad valorem Taxes	7.2	7.2	7.2
Depreciation Expense	8.4	9.6	9.6
California Income Tax	6.0	(11.3)	6.1
Federal Income Tax	<u>(0.2)</u>	<u>(0.2)</u>	<u>20.7</u>
Total Expenses	464.4	420.6	459.1
Net Revenues	(122.9)	(79.1)	63.9
Rate Base	\$595.3	\$555.2	555.2
Rate of Return*	-20.65%	-14.25	11.51%

*WCRF is not included in Rate of Return

Discussion

Under Section 728 of the PU Code, this Commission has the responsibility and authority to determine and fix, by order, "the just, reasonable, or sufficient rate" for the public utilities under its jurisdiction. Years ago the United States Supreme Court in Federal Power Com. v Hope Natural Gas Co. (1943) 320 U.S. 591, stated that "the fixing of 'just and reasonable' rates, involves a balancing of the investor and the consumer interests," and that "From the investor or company point of view it is important that there be enough revenue not only for the operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with return on investments in other enterprises having corresponding risks."

In this proceeding the Water Utilities Branch of our Evaluation and Compliance Division staff has carefully checked Park's reported revenues, payments to the Wastewater Capital Recovery Fund, O&M expenses (including calculations for Lompoc's treatment and disposal charges for fiscal year 1986-87), A&G expenses (including Park's main office allocations for both A&G and data processing), taxes and depreciation, and rate base; all updated by Park at staff's request to reflect present 1987 experience.

Park's estimates, as summarized in Table A, indicate that at present 1987 rates it would lose approximately \$122,900 in 1987 on the Vandenberg sewer operation, also obtaining no return on its rate base investment in the utility. Staff's estimates, independently made but based on the same 1987 present rates, confirm a loss, although placing it at a lower amount, approximately \$79,100, again with no return on the utility's investment. This situation fails to meet the Hope case constitutional guidelines, and indicates that Park is entitled to prompt rate relief - relief that will suffice to pay its indicated

operating expenses, and also provide a return on Park's rate base investment commensurate with that of other enterprises having corresponding risks.

In this latter regard it is generally conceded that the risk of operating and managing a sewer system and the commensurate rate of return are generally comparable to those for a water system. The factors which determine water rates also apply to sewer rates; earnings are made under the same Commission jurisdiction and constraints; rate base upon which earnings are made is derived the same; in the present situation both operations have the same operating personnel and management and the same ratepayers; the Commission has adopted the same rate of return for the sewer operation as has been granted in the prior most recent Park water proceedings.

Although initially asking for a higher rate of return (15.26% at staff's calculation), at the hearing Park stipulated to accept whatever rate of return the Commission adopted applicable to Park's Central Basin and Uehling Water Company in the companion A.86-11-021 and A.86-11-022 proceedings then awaiting decision. Staff concurred. The Commission By D.87-09-024 dated September 23, 1987 adopted 12% on equity (11.51% on rate base) as applicable to Park's 1988 earnings. Since the rates set in the present Vandenberg proceeding will become applicable approximately January 1, 1988, and we perceive the overall risk factors as comparable, we adopt the same 11.51% return on rate base for the Vandenberg Disposal Division.

In analyzing Park's estimates, in addition to minor differences, staff turned up two main areas where it differed with Park's estimates. Staff's calculations conclude that Lompoc's disposal charges for 1987 will reflect closer to a \$236,600 total than the \$255,900 total calculated by the utility. We conclude that staff's figure appears to be the more solidly determined, being based on presently available information, and we adopt it.

Another area of difference is in allocated main office expenses and for data processing. District was concerned about the substantial jump in A&G expense since 1977-78. However, in those earlier days there was no allocation of main office expense to the Vandenberg disposal operation; the first allocation being made in 1979. Also, up to 1982 no local managerial payroll costs were allocated to the Disposal Division. Since 1982 the local management payroll has been divided, based on the 4-factor method,⁵ between water and sewer. Park's main office at Downey, California, provides engineering, financial, electronic data processing, revenue requirement, and other managerial services for all Park utilities. The costs of these services are regularly tested in other Park proceedings and have been found reasonable. They are allocated on the 4-factor method (data processing on a 2-factor method). Staff's estimates were \$1,800 and \$3,800 lower than Park's for main office and data processing respectively. Staff used Commission-sanctioned escalation factors, and staff also estimated fewer director's meetings at a lesser fee per meeting. We adopt staff's estimates.

Staff's other principal difference was in one of the components making up Rate Base - a difference in the working cash allowance component. Park included no working cash allowance in determining Rate Base since sewer charges are collected in advance and accordingly there are no revenue lag days vis-a-vis expense lag days. However, staff applied Commission Standard Practice U-16 to arrive at a negative \$37,200 component which, when added to the \$2,900 difference agreed upon by staff and Park (in the A.86-11-022 rate proceeding) with respect to allocated main office Rate Base, resulted in a \$40,100 reduction in rate base from Park's \$595,300

⁵ The four factors being O&M expenses, plant, direct payroll, and number of customers.

to staff's \$555,200. The staff calculations are the more appropriate and will be adopted.

When the adopted 11.51% rate of return on rate base is applied to the Table A adopted staff estimates of utility expenses, and revisions are made to the income tax items, we see that in order to produce the total revenues required to meet anticipated and resulting operating expenses and produce a 11.51% return on adjusted rate base, a \$181,600 increase (53.2%) in sewer operating revenue is required. Table B which follows reflects our adopted Summary of Earnings at the rates which are to be authorized by this decision. These will increase the monthly residential rate \$6.97 from \$15.15 to \$22.12, a 46% increase. The Lompoc charges and revenues are subject to balancing account treatment. The Lompoc charges represent approximately 41% of the Division's expenses.

TABLE B

Park Water Company-Vandenberg Disposal Division
1987 Summary of Earnings
At Adopted Present and Authorized Rates
(Dollars in Thousands)

	<u>At Adopted Present Rates</u>	<u>Increase</u>	<u>At Authorized Rates</u>
Total Revenues	\$394.6	\$181.6	\$576.2
WCRF Payments*	<u>(53.2)</u>		<u>(53.2)</u>
Operating Revenues	341.5	181.6	523.0
Expenses			
Oper. & Maint.	283.5		283.7
Admin. & Gen.	125.3		125.3
Taxes Other Than Inc.	13.7		13.7
Deprec. Expense	9.6		9.6
Calif. Inc. Tax	(11.3)		6.1
Fed. Inc. Tax	<u>(0.2)</u>		<u>20.7</u>
Total Expenses	420.6		459.1
Net Income	(79.1)		63.9
Rate Base	\$555.2		\$555.2
Rate of Return*	-14.25%		11.51%
*WCRF is not included in Rate of Return			
Residential Rate	\$15.15	\$6.97	\$22.12
Percent Increase		46%	

Before concluding we would be remiss were we not to address certain of District's evidence and contentions in more detail. District's reliance upon overall national cost of living data as the basis to limit any increase is reliance upon a factor that does not necessarily correlate to changes in the expenses a utility necessarily must incur within any particular period of time. Many factors other than cost of living enter into utility expenses. Very frequently expense increases are entirely beyond the ability of the utility to change or even influence, although sometimes it can delay them. Purchased power, transportation expense (especially gasoline), postage, insurance, office supplies, regulatory Commission expenses are examples of externally generated

costs of doing utility business which often have little or limited direct relationship to the cost of living indexes - local or national. Payroll and payroll burden may to a larger degree be influenced by cost of living considerations and can also be influenced by a utility's collective bargaining stance. In the present situation approximately 40% of the Division's expenses are represented by treatment and disposal charges from the City of Lompoc which the Division can only pay. These are not determined by cost of living indexes. While such indexes are interesting reference points they cannot be determinative in ratemaking.

An advantage that a large integrated utility system has over small independent utility systems is that it can maintain centralized functions such as engineering, financial, testing, data processing, and management where expensive specialized expertise is required, making it available as needed to its units, thereby avoiding local duplication and unproductive standby time or the need to occasionally hire expensive consultants. Park's Downey headquarters generally supplies these requirements and this centralized system has been found to be appropriate and economic for the Park system. Vandenberg Disposal must expect to carry its share of this necessary expense as well as its share of local management and clerical expense. Utility systems just do not run themselves. The 4-factor allocation method is based on appropriate components and has demonstrated its value, flexibility, and fairness over the years. It is not influenced by extraneous factors, such as revenue, which might otherwise weigh and determine allocations unfairly to all concerned divisions.

Finally, we turn to that recurrent theme that influenced District's consideration in this proceeding: the theme that since Park's predecessors were allegedly "donated" the initial sewer plant and installation by Madison, Park has been taking unwarranted charges based on that rate base over all preceding years. First of all, it must be recognized that the sewer plant and installations

were not "donated" to Park's predecessors. Years before sewer utilities came under regulation in California Park's predecessors were induced to take on the substantial obligation of public water utility responsibilities, and they assumed the expense of organizing, financing, designing, installing, and operating a regulated water system in exchange for the sewer system. The sewer system was the consideration, the payment for the assumption of the water utility obligation. The sewer plant and main system they received was one designed to serve Units 1 and 2 of Tract 10034 (287 services), a mere fraction of the facilities (1,415 services) that they developed the system to serve by the end of 1972 when the Legislature decreed regulation. Over the intervening years the predecessors and later Park had borrowed considerable sums of money to make capital infusions to operate and expand their system. They also accepted contributions toward expansion of the system to numerous other tracts north of the Lompoc-Casmalia Road.

As requested, we have taken official notice of the Disposal Division Annual Reports. The 1975 Annual Report covers the last year before the Division entered the regional treatment plan. That report showed the then existing utility plant in service listed at \$845,000. Offset against this in calculating rate base were \$199,000 in the depreciation reserve and contributions in aid of construction of \$450,000. Without considering other rate base components such as working capital and other adjustments, the balance would indicate an average depreciated rate base in the neighborhood below \$196,000. In D.85716 issued April 20, 1976 in A.55367 filed December 6, 1974, the Commission found the rate base to be \$166,000 applicable to test year 1975.⁶ Both Park and staff had been very close. This rate base was used to determine the \$5.25 per month residential

⁶ Park had claimed \$168,465.

rate which then become effective. At the time there were no challenges to the decision much less the figure, and it has long since become final.

Since 1976 rate base changes have been closely traced by our staff and verified to our satisfaction. At this late date we find no factual basis or sufficient reason to retrace these steps on the mere chance that we might uncover some minor error of inclusion or exclusion. We are satisfied that the Commission and staff of that day did its duty and correctly determined the applicable rate base. Park has taken no depreciation, nor has it made unwarranted charges based on Rate Base over the intervening years. Rate Base has not been exaggerated as stated by District, nor has District adduced any credible evidence in support of its statements.

Appendix B attached hereto sets forth the revenue calculations, income tax calculations, and adopted quantities upon which the adopted Summary of Earnings is based.

Rule 77.1 Waiver on Proposed Decision of ALJ

Pursuant to provisions of Rule 77.1,⁷ Park filed a motion to waive the filing of and comment to the proposed decision of ALJ Weiss. Copies of Park's motion were mailed October 8, 1987 to all parties of record, including District's President Sutherland. As of October 26, 1987 no objections have been filed. Therefore, considering that:

1. At termination of the hearing applicant and staff had stipulated to adoption for this proceeding of Staff's Summary of Earnings "numbers" as adjusted, and to adoption of the rate of return to be authorized by the Commission in the then pending decision⁸ before the Commission in A.86-11-021 and

7 77.1. (Rule 77.1) Filing Proposed Decision

The Administrative Law Judge shall prepare a proposed decision, whether interim or final, setting forth recommendations, findings and conclusions. After discussion with the assigned commissioner, the proposed decision of the administrative law judge shall be filed with the Commission and served on all parties without undue delay, not later than 90 days after submission.

This procedure will apply to all matters which have been heard, except those initiated by customer or subscriber complaint unless the Commission finds that such procedure is required in the public interest in a particular case.

Applicants in matters involving passenger buses, sewer utilities or vessels may make an oral or written motion to waive the filing of and comment on the proposed decision. Any party objecting to such waiver will have the burden of demonstrating that such filing and comment is in the public interest.

NOTE: Authority cited: Section 1701, Public Utilities Code; and Section 2, Article XII, California Constitution. Reference: Section 311, Public Utilities Code.

8 D.87-09-071 was issued September 23, 1987. The decision was by its terms effective immediately. The time for filing of an application for rehearing of that Commission decision ended October 23, 1987. That decision therefore is final.

A.86-11-022 (Park's Central Basin and Uehling Water Company proceedings), and

2. At hearing District had raised only three issues: cost of living, rate of return (including rate base), and allocations, all of which were extensively examined during the hearing, and are addressed at length and adequately in the ALJ's proposed decision, and
3. That the Division has, as recognized in the proposed decision of the ALJ, a currently inadequate revenue and is in need of additional revenue now,

the ALJ concluded that the motion to waive the filing of and comment on the proposed decision should be granted to facilitate earlier decision on the rate increase. Any factual, legal or technical errors can be dealt with by petition for rehearing of the Commission decision in this proceeding. We affirm the ALJ's granting of applicant's motion to waive filing and comment on the proposed decision.

Findings of Fact

1. The Vandenberg Disposal Division of Park is a sewer public utility within the jurisdiction of this Commission.
2. The Division's last general rate increase was authorized by D.85716 issued April 20, 1976 and became effective May 25, 1976.
3. Use of the 4-factor allocation method to allocate Park main office expenses, other than data processing, and intra-Vandenberg division allocations, is reasonable.
4. The charges from the City of Lompoc for Regional Plant wastewater treatment and effluent disposal represent the largest expense item of the utility.
5. These charges fluctuate substantially, and pursuant to the requirements of PU Code § 792.5 are recorded in a balancing account.

6. Disposal Division rate changes in intervening years since 1977 have been offsets primarily to accommodate swings in the balancing account caused by changes in Lompoc's charges.

7. At present rates the Disposal Division is not producing sufficient revenue to meet test year 1987 expenses or provide any return on Park's investment.

8. The Disposal Division is in need of prompt rate relief to produce additional revenues.

9. A rate base of \$555,200 is justified for test year 1987.

10. The proposed increase of \$216,449 for Disposal Division revenues would yield total operating revenues of \$557,911 and a rate of return of 12.34% on the adopted rate base of \$555,200, but the rate of return is excessive.

11. A rate of return of 11.51% on the adopted rate base of \$555,200 is reasonable.

12. The authorized rates contained in Appendix A attached hereto should provide annual operating revenues of \$523,000, an increase of 53.2% over present annual operating revenues for test year 1987.

13. The increase in rates for charges authorized by this decision is just and reasonable and the present rates and charges insofar as they differ from those prescribed by this decision are for the future unjust and unreasonable.

Conclusion of Law

Park's application should be granted to the extent set forth in the order which follows.

ORDER


IT IS ORDERED that after the effective date of this order Park Water Company is authorized to file the revised rate schedule attached to this order as Appendix A and concurrently cancel and withdraw presently effective schedules for sewer service. Rates as approved include user charge contributions in the amount of \$2 per month for each residential customer and \$0.20 per hundred cubic feet of commercial wastewater discharged. Upon receipt, these user charge contribution amounts, together with connection charge receipts, shall be transmitted to the City of Lompoc for deposit in the Wastewater Capital Reserve Fund as required by the state and federal grant regulations. Accounting for these funds will be continued as presently constituted. The effective date of the revised schedules shall be 4 days after the date of filing. The revised schedules shall apply only to service rendered on or after the effective date thereof.

This order is effective today.

Dated NOV 25 1987, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Victor Weisser, Executive Director

APPENDIX A
Page 1

PARK WATER COMPANY
VANDENBERG DISPOSAL DIVISION

SCHEDULE NO. 1

GENERAL RESIDENTIAL SERVICE

APPLICABILITY

Applicable to General Residential Sewer Service for single-family residence and other residential dwelling units with individually metered water service.

TERRITORY

Vandenberg Village and vicinity, north of Lompoc, Santa Barbara County.

RATES

Single-family residence or dwelling unit ... \$22.12 per month (I)

APPENDIX A
Page 2

PARK WATER COMPANY
VANDENBERG DISPOSAL DIVISION

SCHEDULE NO. 2

COMMERCIAL SERVICE

APPLICABILITY

Applicable to all sewer service except as shown in Schedule No. 1.

TERRITORY

Vandenberg Village and vicinity, north of Lompoc, Santa Barbara County.

RATES

For commercial establishments including apartment houses and other residential dwelling units with master metered water service:

Per Ccf of water usage recorded
on meter serving other than
irrigation or other outside use \$ 1.81 (I)

or

Per Ccf of metered wastewater 2.26 (I)

or

Per 1,000 gallons of metered
wastewater 2.99 (I)

Minimum charge per month 22.12 (I)

APPENDIX A
Page 3

PARK WATER COMPANY
VANDENBERG DISPOSAL DIVISION

SCHEDULE NO. 2

COMMERCIAL SERVICE
(Continued)

STRENGTH SURCHARGES

For BOD and/or SS strength in excess of 300 mg/l, a surcharge computed as follows shall be added to the volume charge:

$$\text{Surcharge} = \frac{(\text{Measured BOD or SS} - 300)}{300} \times$$

Per Ccf of water usage recorded on meter serving other than irrigation or other outside use \$ 0.13 (I)

or

Per Ccf of metered wastewater 0.19 (I)

or

Per 1,000 gallons of metered wastewater 0.26 (I)

TERMS OF PAYMENT

Monthly minimum charges are payable in advance and usage charges in excess of minimum charge for each month are payable on a monthly basis upon receipt of a bill for sewer service.

APPENDIX A
Page 4

PARK WATER COMPANY
VANDENBERG DISPOSAL DIVISION

SCHEDULE NO. 2

COMMERCIAL SERVICE
(Continued)

SPECIAL CONDITIONS

1. If, in the opinion of the company, variations in monthly water consumption are not the result of variations in inside water usage, sewer charges may be based on the average metered water consumption for the three months with the lowest usage during the preceding calendar year.

2. The measurement of strengths of BOD and SS in wastewater discharged shall be the responsibility of the discharger and such measurements shall be made from time to time to establish strengths to be used for billing purposes. Such measurements are limited to only those customers who are known or believed to be discharging wastewater of greater than domestic or base strength. Measurements shall be reviewed annually or at the request of the customer, or at the option of the company if there is reason to believe that there has been any significant change in the strength of wastewater discharged.

(END OF APPENDIX A)

APPENDIX B
Page 1Park Water Company
Vandenberg Disposal Division
Revenue Calculations
Test Year 1987

<u>Schedule No. 1</u>	<u>At Present Rates</u>	<u>At Adopted Rates</u>		<u>Present Revenue</u>	<u>Adopted Revenue</u>	<u>WCRF Charges</u>
Service Charge	\$13.15	\$20.12	1,948 1/	\$307,394	\$470,325	
WCRF Factor	\$2.00	\$ 2.00		\$ 46,752	\$ 46,752	\$46,752
Subtotal	<u>\$15.15</u>	<u>\$22.12</u>		<u>\$354,146</u>	<u>\$517,077</u>	
Balancing Account % to Disposal Account	\$5.82 44.26%	\$9.10 45.23%		\$136,048	\$212,722	
 <u>Schedule No. 2</u>						
Minimum Charge	\$13.15	\$20.12	23 1/	\$ 3,629	\$ 5,553	
WCRF Factor	\$2.00	\$ 2.00		\$552	\$552	\$552
Subtotal	<u>\$15.15</u>	<u>\$22.12</u>		<u>\$ 4,181</u>	<u>\$ 6,105</u>	
% to Disposal Account	44.26%	45.23%		\$ 1,606	\$ 2,512	
Per Ccf of Water Use	\$1.040	\$1.610	29,268 2/	\$ 30,439	\$ 47,121	
WCRF Factor	\$0.200	\$0.200	29,268 2/	\$ 5,854	\$ 5,854	\$5,854
Total Per Ccf/Month	<u>\$1.240</u>	<u>\$1.810</u>		<u>\$ 36,292</u>	<u>\$ 53,158</u>	<u>\$ 53,158</u>
% to Disposal Account	44.26%	45.23%		\$ 13,472	\$ 21,312	
Total Revenues				<u>\$394,620</u>	<u>\$576,157</u>	
				To Lompoc - WCRF	(\$ 53,158)	(\$ 53,158)
				<u>Operating Revenues</u>	<u>\$341,463</u>	<u>\$523,000</u>

1/ Average number of customers

2/ Water use for Schedule No. 2

APPENDIX B

Page 2

Park Water Company
Vandenberg Disposal Division

Income Tax Calculations

1987

	<u>Adopted</u>
Revenues	\$523,000
Expenses	
Oper. & Maintenance	\$283,700
Admin. & General	125,300
Amortized Deferred Debit	0
Ad Valorem Taxes	7,200
Payroll Taxes	6,500
	<hr/>
Subtotal	\$422,700
Deductions	
CA Tax Depreciation	\$ 24,100
Interest	\$ 13,000
CA Taxable Income	\$ 63,200
CCFT @ 9.6%	\$ 6,100
Deductions	
Fed. Tax Depreciation	\$ 19,700
Interest	\$ 13,000
FIT Taxable Income	\$ 61,500
FIT (Before Adjustment)	\$ 20,900
Prorated Adjustment	\$ 0
Investment Tax Credit	(\$ 200)
Net Federal Income Tax	\$ 20,700

APPENDIX B

Page 3

Park Water Company
Vandenberg Disposal Division

Adopted Quantities

1987

1. Net-to-Gross Multiplier	1.6777
2. <u>Tax Rate</u>	
Federal	34.0%
State	9.6%
Local Franchise	0.0%
Uncollectibles	0.1%
3. <u>Ad Valorem Tax</u>	
Assessed Value	\$614,900
Effective Tax Rate	1.17083%
4. <u>Purchased Power</u>	
Power Consumption	38,560 Kwh
Cost/Kwh (4/1/87)	\$0.0993/Kwh

(END OF APPENDIX B)